

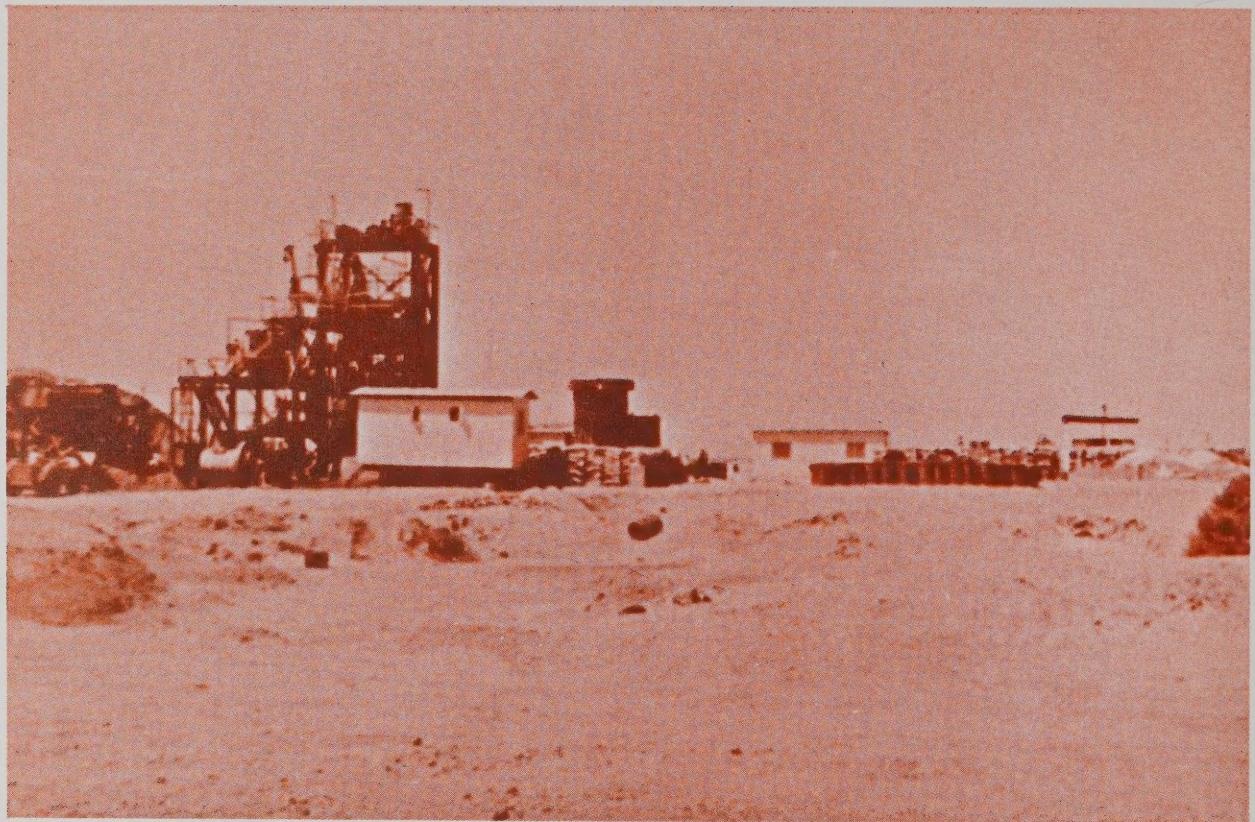
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July 24, 1966  
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MIDEPSA INDUSTRIES LIMITED  
**REPORT**

*for sixteen months ended April 30* **1966**

**4**



*Pilot phosphate plant*

# MIDEPSA INDUSTRIES LIMITED

## OFFICERS:

E. R. SUTTIE, *President and Treasurer*

D. HADEKEL, *Vice-President*

G. A. ALLISON, Q.C., *Secretary*

## DIRECTORS:

G. A. ALLISON, Q.C.

G. R. BALL

J. C. BREDIN

R. G. BURGE

A. D. CHRISTENSEN

D. HADEKEL

J. KOSTUIK

L. G. NICOL

E. R. SUTTIE

## REGISTRAR AND TRANSFER AGENT:

GUARANTY TRUST COMPANY OF CANADA

*Montreal - Toronto*

## AUDITORS:

PRICE WATERHOUSE & CO., *Montreal*

PRICE WATERHOUSE PEAT & CO., *Lima, Peru*

## HEAD OFFICE:

*1255 University St., Montreal, Quebec*

# MIDEPSA INDUSTRIES LIMITED

## DIRECTORS' REPORT

### TO THE SHAREHOLDERS:

In consequence of the change of your Company's year end, the period under review extends from December 31, 1964 to April 30, 1966.

During this time significant advances have been made in various aspects of the development of the Sechura project under the Montreal agreement of May 15, 1963.

On June 14, 1965 the contract between the Government of Peru and Minera Bayovar S.A. was signed culminating negotiations which had been underway for approximately two years. This contract gives assurance of financial and tax stability and provides the necessary approval from the government in order to permit making sales and shipping contracts, long-term loans and other financial commitments essential to the success of the project.

On July 12, 1965, shareholders were advised that Minera Bayovar S.A. had entered into a long-term purchase agreement with Texada Mines Limited for the sale of phosphate rock concentrates. In brief, under the terms of the agreement, Texada agrees to buy from Minera a total of 3 million tons of phosphate rock concentrates at the rate of 300,000 tons per year over a 10-year period. Texada also agrees to advance to Minera against the purchase price, the sum of \$3,000,000. The advance with interest of 6 per cent per annum is repayable by crediting Texada with \$1.00 for each ton of concentrates purchased over the 10-year period.

At a meeting of the board of directors on October 19, 1965, Mr. A. D. Christensen, president of Texada Mines Limited, delivered to your Company two letters – one from Texada and one from Minera. The Texada letter states

that "construction has commenced with respect to the project contemplated by the Agreement dated May 15, 1963, among Midepsa Industries Limited, Minerales Industriales del Peru S.A. and Texada Mines Ltd." The Minera letter informed your Company that, after verification on the site by the Dirección de Minería, written confirmation was received from the Director of Mines that construction was underway on October 1, 1965 in accordance with the contract between the Supreme Government of Peru and Minera Bayovar S.A.

Considerable progress was made in the further exploration and development of both the brines and phosphate deposits in Sechura as evidenced by an investment in excess of \$3,000,000 by Minera to April 30, 1966. This does not include the capital cost of the two sections of the De Long dock or the 25,000 k.v.a. thermal electric plant now being made ready for shipment to Bayovar.

The first solar evaporation facilities including dikes enclosing a system of evaporating ponds, a brine well and a diesel power plant, have been completed. The process developed for the production of sodium and potassium salts from the brines has been confirmed by the operation of the potash pilot plant. This process represents a most significant development in the decomposition of complex brines and its use on a commercial scale has been verified by independent consultants. As an indication of the magnitude of the brine test, some 26 million gallons had been pumped into the solar evaporation system up to the end of April 1966. The planned facilities for the brine will produce approximately 200,000 tons of commercial potash as well as 2 million short tons per year of good quality industrial sodium chloride.

Drillings were continued in the area selected for the phosphate mine to define more accurately the orebody. The reasonably assured reserves have been established as 78,200,000 tons at 31% P<sub>2</sub>O<sub>5</sub> contained in 34 square kilometers in the Western Depression, a small part of the total phosphatized area extending over several thousand square kilometers in the Sechura Desert. Further tests have been successfully concluded in the beneficiation treatment of the phosphate ore which has resulted in the definition of equipment and associated flow chart for the phosphate production facilities. The feasibility of mining the phosphate ore employing a large capacity wheel excavator has been satisfactorily determined.

Concurrent with the investigations of the brines and phosphates, considerable work has been done on ancillary facilities. Access roads have been completed or are under construction, the plan for the port facilities is finalized and warehouse storage constructed for the output of the phosphate pilot plant presently producing 240 tons of concentrates weekly.

Of interest to American shareholders is a ruling letter dated November 24, 1965 from the U.S. Treasury Department designating your Company as exempt from the U.S. interest equalization tax under section 4916(c) of the Internal Revenue Code. In order to ensure a continuation of the tax exemption for the current year, the required information was forwarded on March 29, 1966.

In September 1965, Mr. J. M. Cape resigned as a director and was replaced by Mr. D. Hadelkel who concurrently ceased to be a salaried officer of your Company. In March 1966, Mr. L. G. Nicol, founding president of your Company, resigned from this post but remained a director.

The above named served in their respective appointments during the formative years and throughout the critical events experienced by your Company. Appreciation is due to all of them for their contributions during their terms of office.

Inevitably, the development of a mineral deposit of the magnitude of Sechura must be a long and carefully planned process. The exploration phase may be considered completed with the announcement on May 9, 1966, that Bechtel Corporation has been selected to perform the definitive design, engineering and construction of the project.

At the present time, negotiations for sales contracts and major financing are continuing. Shareholders will be advised when these important matters have been satisfactorily concluded.

The foregoing review indicates that substantial progress has been made in the past sixteen months in the direction of bringing the Sechura project into production. The foundations of the project have been soundly laid and it has moved into the pre-production stage. Your directors await future developments with confidence.

On behalf of the Board,



E. R. SUTTIE,  
PRESIDENT

# MIDEPSA IND

## BALANCE SHEET

### ASSETS

CASH ON HAND .....	\$ 100
BANK DEPOSIT RECEIPT .....	25,000
ACCOUNTS RECEIVABLE .....	1,153
FURNITURE, at cost .....	\$ 6,644
Less: Accumulated depreciation .....	3,501
	3,143
INVESTMENT IN AND ADVANCES TO MINERALES INDUSTRIALES DEL PERU S.A., a subsidiary	
935,850 shares (out of a total outstanding of 1,000,000 shares) acquired in exchange for 2,807,550 shares of Midepsa Industries Limited, valued by the directors at \$10 per share – Note 1	28,075,500
Advances – Note 2 .....	3,343,723
	31,419,223
ORGANIZATION EXPENDITURES .....	13,529
	<hr/>
	\$31,462,148

NOTE 1: The company's investment in and advances to its subsidiary, Minerales Industriales del Peru S.A., are represented principally by Minerales' 40% equity interest in Minera Bayavar S.A., received in 1963 in exchange for all its mining claims, concessions and other assets in Peru. The value attributed by Minerales to the Minera shares so acquired is equal to the total expenditure of approximately \$3,900,000 incurred on exploration and development work up to the date of transfer. The real value of the Minerales shares will depend upon the profitability of Minera's venture in Peru which has not reached the operating stage.

NOTE 2: In accordance with the terms of the agreement of May 15, 1963 between Texada Mines Ltd., Minerales and the company, \$249,757 of the company's advances to Minerales has been assigned as collateral security to Texada and the repayment of the company's advances to Minerales has been subordinated to the payment of the company's indebtedness to Texada.

NOTE 3: The said agreement of May 15, 1963 grants Texada Mines Ltd. the option at any time to convert its advances and accrued interest thereon into fully-paid shares of the company at a price per share in accordance with the terms of the said agreement and being approximately \$2.15.

# INDUSTRIES LIMITED

- APRIL 30, 1966

## LIABILITIES

ACCOUNTS PAYABLE AND ACCRUED .....	\$ 4,908
6% NON-NEGOTIABLE NOTES payable to Texada Mines Ltd., including accrued interest of \$39,757 - <i>Notes 2 and 3</i> .....	249,757
	<hr/>
	254,665

## CAPITAL STOCK & DEFICIT

### CAPITAL STOCK - *Note 3:*

Authorized -

6,000,000 shares without nominal or par value

Issued -

3,275,004 shares .....

\$31,519,923

Deficit, per statement attached .....

312,440

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31,207,483

### APPROVED ON BEHALF OF THE BOARD:

E. R. Suttie, *Director*

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\$31,462,148

J. C. Bredin, *Director*

## Auditors' Report to the Shareholders of Midepsa Industries Limited:

We have examined the balance sheet of Midepsa Industries Limited as at April 30, 1966 and the statement of expenses and deficit for the period January 1, 1965 to April 30, 1966. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and related statement of expenses and deficit, supplemented by the notes thereto, present fairly the

financial position of the company as at April 30, 1966 and the change in deficit for the period January 1, 1965 to April 30, 1966, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

PRICE WATERHOUSE & CO.  
Chartered Accountants.

MONTREAL, June 30, 1966.

# MIDEPSA INDUSTRIES LIMITED

## STATEMENT OF EXPENSES AND DEFICIT

*For the period January 1, 1965 to April 30, 1966 (Note)*

Deficit – December 31, 1964 .....	\$154,531
Add: Expenses charged in 1965 - 1966:	
Salaries and separation allowances, of which \$55,817 paid to officer directors .....	\$62,245
Rent .....	6,037
Registrar and transfer agents' expenses .....	8,663
Stationery and printing .....	3,877
Taxes and licences .....	2,330
Telephone and telegraph .....	6,087
Travelling .....	11,305
Legal and other professional fees .....	28,460
Provision for depreciation .....	1,219
Interest on notes .....	18,934
Other expenses .....	9,991
	159,148
	313,679
Deduct: Interest income .....	1,239
Deficit – April 30, 1966 .....	\$312,440

The above statement is for a period of sixteen months because the end of the company's fiscal year was changed during 1965 from December 31 to April 30.

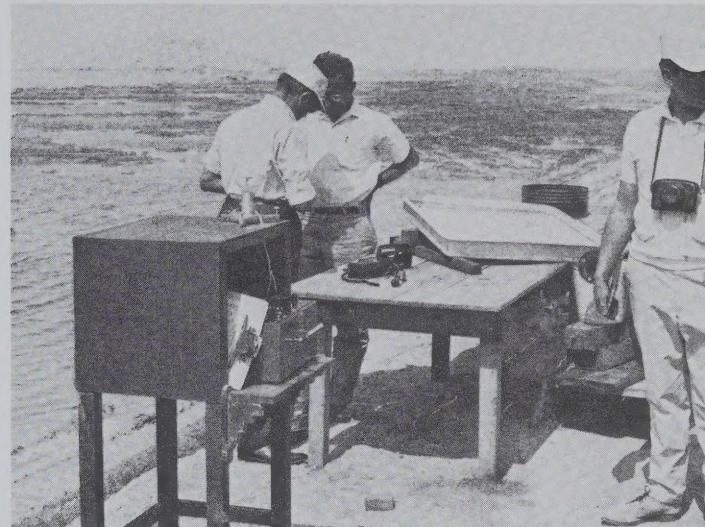
# MIDEPSA INDUSTRIES LIMITED

## A SHORT HISTORY OF THE COMPANY

Midepsa Industries Limited holds a substantial interest in a large deposit of phosphates and potash brines in the Sechura desert of Peru. These deposits, amongst the largest and richest in the world, were discovered some eight years ago in an area previously explored for oil.

In 1958 a Peruvian company, Minerales Industriales del Peru, was formed to acquire concessions and claims to two million acres in the deposit area. Three years later, in September 1961, Midepsa Industries was incorporated for the purpose of obtaining a Canadian participation in the development of the Sechura deposits. Through an exchange of shares, Midepsa acquired 93.585% of the outstanding capital of Minerales Industriales.

A period of intense exploration and development work followed financed by primary distribution of treasury stock. Exploration results confirmed the existence of 450 million tons of phosphate concentrates calculated at 31% P<sub>2</sub>O<sub>5</sub> with raw ore averaging 8%. Total raw ore reserves were estimated at 38 billion tons. In addition, large areas containing reservoirs of saturated brines were located. These brines are rich in potassium, common salt, magnesium chloride and bromine.

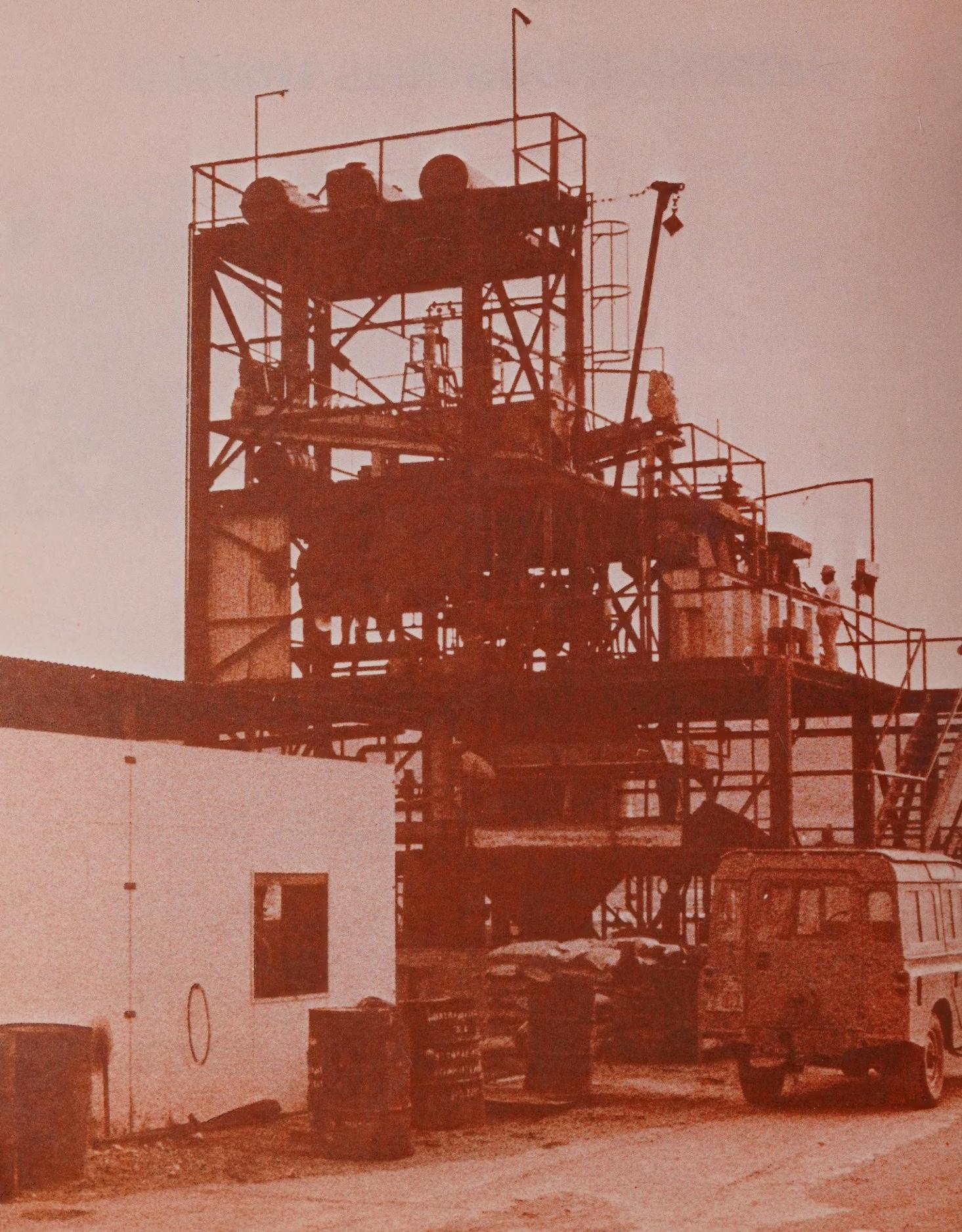


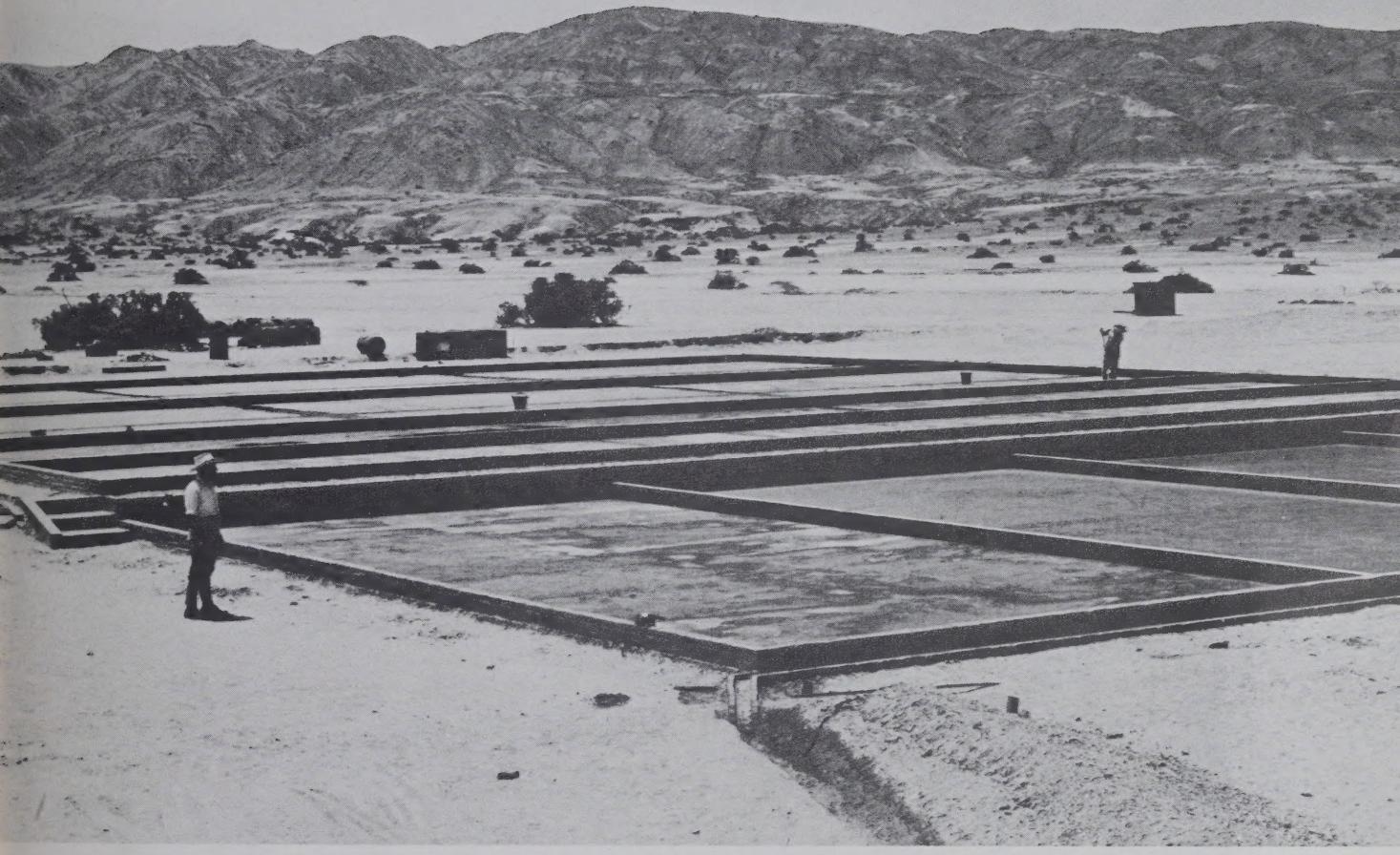
*Testing of brine samples*

It soon became obvious that a project of such magnitude would require expenditures far in excess of funds available to Midepsa. After prolonged but unfruitful negotiations with Homestake Mining and others, the company concluded on May 15, 1963, an agreement with Texada Mines Limited, whereby in return for a 60% interest in the project, Texada undertook to arrange for the financing and placing into production of the Sechura properties. Texada is a private company, incorporated in British Columbia and financed by U.S. interests.

As a result of this agreement, Midepsa and Texada formed jointly Minera Bayovar S.A. to take over the claims and mineral concessions held by Minerales Industriales. Texada acquired a 60% interest in the new company with Midepsa retaining 40% of its original participation in the Sechura project.

Subsequent and recent developments constitute the substance of the current directors' report to the shareholders.





*Pilot evaporating ponds*

*Phosphate ore for processing*



*Pilot phosphate plant*

